

terms. It has been noted under the heading on investment, p. xxxii, that public investment in durable physical assets increased by 20 p.c. The increase in the non-investment expenditures of governments was around 17 p.c. Total Federal Government expenditures on goods and services increased by over 30 p.c., and provincial and municipal expenditures by a little more than 10 p.c.

Changing Influences in the Domestic Economy.—Domestic demand was strong enough to more than offset a moderate weakness in export demand, with the result that no recessionary movement occurred such as developed in the United States in 1948-49. Domestic demand was also sufficiently pervasive that most industries, including many with important export markets, were able to maintain their volume of production at or increase it above the 1948 level. The aggregate demand, on the other hand, was not strong enough to bring about a continued substantial rise in prices. Nor was it strong enough to provide employment for all additional entrants to the labour force.

These influences became more evident in the last half of the year. The industry most adversely affected was forestry. Its level of operations declined substantially, partly as a result of efforts of pulp and paper mills to reduce pulpwood inventories and partly as a result of caution in the face of uncertainties in the export market. In the last quarter of the year, unfavourable weather conditions further reduced levels of operations in the woods. Consequently, the forest areas of the Maritimes, Quebec, Ontario and British Columbia witnessed high levels of unemployment in the winter of 1949-50. A weakening export demand for most agricultural products and some fish products during the year did not have an immediate effect on the level of activity of these industries but did affect the cash income of farmers and fishermen. Failure of domestic demand to offset reduced export demand also resulted in somewhat lower levels of operations in such manufacturing industries as shipbuilding, machine tools, wool textiles, leather, rubber and some branches of food processing. A reduced volume of exports also had an adverse effect on the transportation industries, the unemployment consequences of which were most evident in the Coastal Provinces. With these notable exceptions, however, most industries were able to maintain or expand production.

The fairly stable level of prices in 1949 in the face of falling prices in the United States is to be accounted for partly by the gradual removal of price controls, which kept Canadian prices below United States prices earlier, and partly by strong domestic demand. Wholesale prices on the whole were weakening in the first three-quarters of the year and increased briefly but fairly sharply immediately after devaluation in September. Consumer goods prices, as measured by cost-of-living indices, increased until after mid-year and then turned down to end the year only about 2 p.c. higher than at the first of the year.

Economic Policies and Administration

Federal Government action during 1949 to assist Canadian producers and consumers to maintain a high level of economic activity can be conveniently classified into (1) direct action in the economic sphere to bolster foreign trade and domestic demand or assist some group in the community to cope with special types of problems; and (2) changes in the Government's administration so as to adapt it to handle economic problems more effectively. The highlights of these two aspects of the Federal Government's activities in 1949 are reviewed in the paragraphs that follow and on p. xl.